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ABSTRACT

To the Moslem, Islam is more than a religion to be practiced one day a week or in a few rituals; it is a detailed way of life. Behavior is comprehensively legislated for Moslems. Their major obligation is to know and follow the "five pillars" of Islamic law. The impact of religion on business is substantiated in research. Some attitudes based in religious belief and practice (such as lack of motivation toward a higher standard of living and attitudes toward innovation, change, investment, and the significance of time) are seen by outsiders as barriers to economic development. Bureaucracy is a chronic problem and a major constraint on development in some countries, such as Egypt. Egyptian laws and policies have only recently encouraged foreign investors, and the ambiguity and informality of the policies tend to make business agreements difficult and costly. Procedures for tendering bids are outdated, and three areas are particularly troublesome for foreigners: bidding, project size, and assuring necessary guarantees and payments. Currency and banking conventions can also be problematic. However, American investors who want to enter the market in Moslem countries can take specific actions and approaches to avoid or minimize some of these problems. (MSE)

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CULTURAL AND BUREAUCRATIC ENVIRONMENT OF MOSLEM COUNTRIES

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CULTURAL AND BUREAUCRATIC ENVIRONMENT OF MOSLEM COUNTRIES

A key to understanding the Moslem people and the religion they practice lies in the translation of the words, "Islam" and "Moslem". Both words are forms of the Arabic verb "to submit." A Moslem is one who accepts and submits to the will of Allah. To the Moslem, Islam is more than a religion to be practiced one day a week or in a few rituals; it is a detailed way of life and has a pervasive impact on the life of a Moslem.

Fundamentals of Islam

Behavior is comprehensively legislated for the Moslem. There are detailed laws and regulations prohibiting wine and gambling, covering the relations of the sexes, granting a higher status to women, stating obligations to parents, and other actions. There are definite acts one must perform to be assured of salvation. It is definitely a religion of practice as opposed to one of theory.

The major obligation of a Moslem is to say, "I hear and obey." Muhammed is recognized as the prophet of God and His teachings become the creed of Islam. The fundamentals of Islam, as set forth in the Koran, are few and relatively simple to understand. Most of the fundamentals of Islam are included in one of three categories: doctrine (iman), religious duty (ibadat), and right conduct (ihsan).

Allah reveals his will and guides men through three media: Muhammed, the Koran and the angels. Muhammed, the prophet and his messenger, was simply man at his best. The Koran is the undistorted and final word of Allah to mankind. The third medium, the angels, are agents of revelation.

Five Pilars

The practice of Islam consists of the observance of the five duties or foundations of Islam called the Five Pillars. These are:

1. Repitition of the Creed: "There is no god but Allah, and Muhammed is the Prophet of God."

2. Prayer: The good Moslem reserves time for five stated periods of prayer during the day. Friday is the special day of public prayer for all adult males when the faithful assemble in the mosque, usually at noon.

3. Fasting: During the daylight hours of Ramadan, Moslems are to abstain from food, drink, smoking, and sexual intercourse from dawn to sunset.

4. Almsgiving: There are both legal alms and freewill gifts enjoined on the Moslem.

5. Pilgrimage to Mecca: Once in a lifetime, every Moslem (man or woman) who can afford it is required to make a trip to Mecca.

Impact of Religion on Business

The impact of religion on business at both the practical and micro levels has been substantiated by several research studies. Religion is central to a culture's self-definition. A person's beliefs, values and attitudes derive in a large part from their religion, and the most vital fact about beliefs is that people act on them.

Some scholars perceive the fatalism and tradition orientation of Islam as barriers to change and economic development. They believe that this fatalistic attitude of the Moslems can be traced to centuries of hardship and lack of progress and also to the Koranic teaching that everything is foreordained and recorded on the Preserved Tablet; suggesting that change is against the will of Allah. Besides this fatalistic attitudes, there are other attitudes that are perceived as barriers to economic development, including the following.

Attitude Toward Innovation and Change

"All innovation is the work of the devil" is a quote attributable to Muhammed. It serves to illustrate the undesirable and negative view of some of the Moslem people. To them, their faith is an integration of religion, political system, and a way of life regulated by the Koran. Traditional Moslems oppose change, and a would-be reformer puts himself in a risky position.

Attitude Toward Investment

The doctrine of "transmigration of souls," i.e., that life of man is a fate-determined cycle, tends to foster an anti-investment attitude. There is no incentive to plan for the future or to find means to increase the productivity of one's natural resources. With this attitude, people tend to seek security in ownership of gold and possessions, rather than investing in the capital goods for productive business.

Attitude Toward Time

People in less developed countries measure time by natural events with hours and minutes having little significance. This attitude not only upsets the efficiency of the industrial organization, but also creates inadequate rationalization of movement, over-staffing, and feather-bedding. It also prohibits the willingness to take a long-view which is a prerequisite to long-range planning for economic developemnt.

Attitude Toward Wealth

The mass of people in developing countries experience poverty

and subsistence-level living and do not share the concept of an ever-rising standard of living. Generally, the lower the standard of living, the more static the aspirations tend to be. Where money is not valued in itself and aspirations are static, the workers will quit as soon as they have met their limited desires.

Bureaucracy

"Routine and red tape are among the most deply rooted features of Egyptian bureaupathology," writes Egyptian sociologist Nazih Ayubi in a 1980 study of the problem. He notes that there is an Egyptian tendency toward "idolization of papers and documents, signatures and seals." It takes two days and 11 different approvals to transfer a car registration; it takes four days and 12 signatures to clear a shipment of books at the post office; it takes up to a week to release a simple shipment of 15 boxes from customs at the Cairo airport, including 18 signatures, two thirds of them duplicating other signatures; it can take nearly two months to transfer a residence permit to a new passport (Ignatius 1983).

Bureaucracy is a chronic problem throughout the world, but it is probably most frustrating in Egypt. Here, bureaucracy appears to control everything; and according to Youssef Sharnoubi, a manager for a local engineering firm in Egypt, it is the most important constraint facing Egypt's development. The tragedy for Egypt is that bureaucracy has detered the foreign investment that the country desperately needs. This is especially evident in the areas of: organizing business ventures, drafting agreements, and the tendering procedures.

Organizing Business Ventures

Foreign companies and investors approach the Egyptian market enthusiastically. The bureaucratic control over the market soon becomes very evident. Would-be investors are confronted with a host of tedious, unstable procedures and policies or transfers from one official to another, accomplishing nothing. In addition to the requirement that a license be granted by the Investment Authority, foreign investors need approval from the Ministry of Industry, the Ministry of Housing, the Ministry of Electricity and others. Oftentimes when these approvals appear to be in order, a minister is replaced and the process starts again. Some would-be foreign investors simply give up from exhaustion. Encouraging such investment was the aim of "Law 43," a 1974 act that established an Investment Authority to aid investors under the open-door policy. But to many businessmen, Law 43 has become a Catch-22.

Drafting Agreements

Egyptian laws and policies create another barrier for business. They are ambiguous and informal, resulting in increased costs and

hardships when negotiating contracts. The current legal system, a patchwork of French, British, and Nasserist statutes, is cumbersome and inconsistent. Negotiating and drafting agreements demand excessive time and energy. Contracts tend to be too complex, because of the distrust and uncertainty on either side. Inspite of the complexity and detail of these agreements, unexpected contingencies usually result into real problems and subsequent confrontations end up being resolved on an ad-hoc basis.

Tendering Procedures

Public-sector companies have to put their orders out to tender. Tendering procedures have changed little since Law 236 of 1954 was promulgated, and the same procedures apply for all tenders in Egypt. Three areas of this procedure are expecially troublesome for potential investors: bidding, the size of the project and the necessary guarantees and payments.

Bidding: The process starts with the requisite public sector buyer company or tendering committee applying for and receiving it annual foreign exchange quota from the relevant foreign ministry. Bid documents have to be purchased to enter the tender. The buyer further stipulates two further conditions: that the bid be made through an Egyptian agent, and that a 1-2% letter of guarantee be place.

Size of Project: Once a need is established, the government in its attempt for instant development, takes the necessary steps to fill the need at a catch-up level. This results in a project of extraordinary size that generally goes beyond the financial or managerial abilities of most companies. This is especially true for those companies without the financial or political backing of their governments, for example, U.S. companies.

Guarantees and Payments: A great financial burden is imposed on potential investors. Consider the typical security guarantee requirements of a turnkey project:

Bid Bond - earnest money equal to one to five percent of the project cost.

Performance Bond - in the range of five to ten percent of the project cost.

Advance Repayment Guarantee - almost 100 percent of any funds advanced by the host country.

Opening a letter of credit is a tortuous process, extending from a minimum of three to six months. First, the award has to be approved by the central bank as the agent for the Ministry of Finance. A special committee then meets to allocate funds on a priority basis. Then there are problems of currency. The vast majority of Egypt's trade is conducted in dollars. Often a letter of credit is issued for only part of the consignment and sometimes

when the supplier checks with his bank, he finds that it has no cover. Often prices rise during the delay and the supplier demands a renegotiation of terms. Usually he provides less than the original tender, but if not, the second bidder is offered the contract. If this fails, the whole order usually has to go out to tender again.

Recommendations

Specific recommedations for overcoming these problems include:

- Reduce some of the bid guarantees which most U.S. companies find financially burdensom.

- Allow U.S. contractors the option of furnishing surety bonds, which are available in the U.S. in lieu of bank guarantees, which are more difficult to secure.

- Permit local financial institutions to assume contingent liability for performance guarantees for a share in the profits.

- Provide cost information for projects to take some of the pain out of the bidding process.

- Move from fixed-cost to cost-plus (adjusted for inflation) contracts. This would reduce at least one variable from the tedious task of probable cost assessments and also reduce one of the uncertainties which most managers prefer to avoid if possible.

- Break up large projects into smaller, more manageable ones which might be attractive to a larger segment of companies.

- Break up projects into phases requiring less time and therefore less burdensome to potential investors.